

## Message Text

UNCLASSIFIED

PAGE 01 BONN 00057 01 OF 02 021802Z

43

ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 /110 W

----- 091619

R 021754Z JAN 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5423

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 00057

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING DECEMBER 31)

REF.: BONN 19043

1. UNDERTONE OF PROGNOSTICATIONS FOR 1976 CONTINUES  
MIXED: THE FIRST OF THE USUAL FLOOD OF YEAR-END ECONOMIC  
ROUND-UPS AND PROPHESES APPEARED IN THE PRESS. ACCORDING  
TO DIE WELT, BUNDESBANK PRESIDENT KLASSEN EXPECTS "A  
SLOW BUT CERTAIN UPSWING" IN 1976 WITH THE FRG GNP  
PROBABLY GROWING BY 4 PERCENT REAL AND 9 PERCENT  
NOMINALLY AND FRG EXPORTS RISING SOMEWHAT FASTER THAN  
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PAGE 02 BONN 00057 01 OF 02 021802Z

WORLD TRADE, I.E., BY SLIGHTLY OVER 5 PERCENT IN CONSTANT

PRICES. KLASSEN REPORTEDLY REITERATED EARLIER PLEAS FOR MODERATE WAGE INCREASES, WHICH SHOULD BE KEPT TO THE ANTICIPATED RATE OF INFLATION ESTIMATED TO DECLINE TO BELOW 5 PERCENT NEXT YEAR. AT THE SAME TIME, HE URGED BUSINESS TO EXERCISE PRICE RESTRAINT AND TO SEEK TO RAISE PROFITS THROUGH INCREASED SALES RATHER THAN THROUGH PRICE HIKES. ACCORDING TO A BUSINESS ASSOCIATION, THE ECONOMY, WHICH HAS GONE THROUGH THE "MOST DIFFICULT YEAR IN POST-WAR HISTORY" MIGHT RETURN TO GROWTH IF COST PRESSURES - MAINLY FROM WAGE INCREASES - ALLEVIATE AND PROFITS IMPROVE. THE INSTITUTE FOR WORLD ECONOMICS IN HAMBURG NOTES THAT THE 1975 DOWNTURN OF FRG EXPORTS' ESTIMATED AT 11 PERCENT REAL, IS EXPECTED TO BE FOLLOWED BY REAL GROWTH OF 7 - 8 PERCENT NEXT YEAR. THE GROWTH OF GERMAN IMPORTS IN TERMS OF CONSTANT PRICES IS FORECAST TO ACCELERATE FROM ABOUT 2 PERCENT IN 1975 TO SOME 7 - 8 PERCENT IN 1976. THE UNDERTONE OF A REPORT OF THE INSTITUTE OF THE GERMAN ECONOMY, THE RESEARCH INSTITUTE OF THE BDI (AN INDUSTRIAL ASSOCIATION), REFLECTS PERSISTENT SCEPTICISM. IN INTERPRETING THE RESULTS OF A SURVEY OF BUSINESS SENTIMENT IN MAJOR BRANCHES OF THE ECONOMY, THE BDI INSTITUTE POINTS TO CONTINUED WEAK PROFITS AND LOW CAPACITY UTILIZATION AND EXPRESSES WORRIES OVER THE FORTHCOMING WAGE ROUND. THE BDI RESEARCHERS SEE CHANCES FOR LITTLE GROWTH OR NO MORE THAN "STABILIZATION AT COMPARATIVELY LOW LEVELS" IN 1976. MINISTER PRESIDENT STOLTENBERG (CDU) SAID: "WAITING FOR THE UPSWING? EVEN IF IT WERE TO COME IN 1976, MAJOR TASKS WILL REMAIN ESSENTIALLY UNCHANGED." PROFESSOR GUTOWSKI, A MEMBER OF THE COUNCIL OF ECONOMIC EXPERTS, SUGGESTED THE GOVERNMENT SHOULD NOT RULE OUT COMPLETELY THE POSSIBILITY THAT DEVELOPMENTS IN 1976 TURN OUT TO BE LESS FAVORABLE THAN PROJECTED IN THE COUNCIL'S RECENT ANNUAL ECONOMIC REPORT. CHANCELLOR SCHMIDT'S VIEWS ON THE ECONOMIC SITUATION BEING REPORTED SEPTELS.

2. MONEY SUPPLY: IN NOVEMBER THE NARROWLY-DEFINED MONEY SUPPLY (M1) INCREASED ON A SEASONALLY-ADJUSTED BASIS BY UNCLASSIFIED

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PAGE 03 BONN 00057 01 OF 02 021802Z

DM 3.7 BILLION. THIS IS SUBSTANTIALLY HIGHER THAN THE SEASONALLY-ADJUSTED AVERAGE INCREASE (DM 2.8 BILLION) DURING THE PREVIOUS TWO MONTHS. THE WIDELY-DEFINED MONEY SUPPLY (M2) ALSO ROSE SUBSTANTIALLY (DM 3.1 BILLION). AT AN ANNUAL RATE (SEASONALLY-ADJUSTED) (M1) INCREASED DURING THE LAST SIX MONTHS BY 16.1 PERCENT. AT THE END OF NOVEMBER IT WAS 15.8 PERCENT HIGHER THAN A YEAR AGO. M2 ROSE DURING THE

LAST SIX MONTHS BY 7.8 PERCENT, BUT AT THE END OF  
NOVEMBER WAS ONLY 0.5 PERCENT HIGHER THAN A YEAR AGO.  
THE BASIC FACTOR FOR THE STRONG MONETARY EXPANSION IN  
NOVEMBER WAS A SUBSTANTIAL INCREASE IN BANK LENDING TO  
DOMESTIC NON-BANKS. THIS IS ABOUT TWICE AS MUCH AS IN  
NOVEMBER OF THE YEARS OF 1974 AND 1973 AND ALSO  
SUBSTANTIALLY HIGHER THAN IN NOVEMBER 1972. THE INCREASE  
IN THE GRANTING OF BANK CREDITS WAS LARGELY ATTRIBUTABLE  
TO CREDITS GRANTED TO THE PRIVATE SECTOR OF THE ECONOMY

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PAGE 01 BONN 00057 02 OF 02 021805Z

43

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 5424

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UNCLAS SECTION 02 OF 02 BONN 00057

WHICH ROSE BY DM 8.2 BILLION AS COMPARED WITH DM 4.6  
BILLION IN NOVEMBER 1974. THE BUNDESBANK ATTRIBUTED

THIS TO A PICKUP IN THE DOMESTIC ECONOMY. DURING  
NOVEMBER THE INDIVIDUAL DETERMINANTS AND COMPONENTS  
OF THE MONEY SUPPLY (SEASONALLY UNADJUSTED) DEVELOPED  
AS FOLLOWS:

	1975	1974	
	NOV	OCT	NOV
			(DM BILLION)
I. BANK LENDING TO DOMESTIC			
NON-BANKS	14.1	14.3	9.1
OF WHICH TO PUBLIC			
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PAGE 02 BONN 00057 02 OF 02 021805Z

AUTHORITIES	5.8	10.0	4.5
PRIVATE SECTOR	8.2	4.4	4.6
II. NET EXTERNAL ASSETS OF			
BANKS (INCLUDING			
BUNDESBANK)	3.3	-0.4	4.8
III. SAVINGS DEPOSITS AND			
BONDS	3.4	4.5	2.7
IV. TIME DEPOSITS (1) AND			
OUTSTANDING BANK BONDS (2)	2.3	1.9	1.8
V. OFFICIAL ASSETS HELD AT			
CENTRAL BANK	-1.9	-1.3	-2.1
VI. OTHER	1.2	4.0	0.2
VII. MONEY SUPPLY (M2)			
(I PLUS II MINUS III MINUS			
IV MINUS V MINUS VI)	12.4	4.8	11.3
OF WHICH: CURRENCY IN			
CIRCULATION AND SIGHT			
DEPOSITS (M1)	14.2	-0.5	13.6
TIME DEPOSITS WITH			
MATURITIES UP TO 4 YEARS	-1.8	5.3	-2.3
(1) WITH MATURITIES OF 4 YEARS AND MORE.			
(2) EXCLUDING BONDS HELD BY BANKS.			

3. FOREIGN EXCHANGE MARKET: THE DOLLAR STRENGTHENED  
SOMEWHAT AGAINST THE DEUTSCHEMARK. DURING THE  
REPORTING WEEK SPOT AND FORWARD DOLLAR RATES DEVELOPED  
AS FOLLOWS:

FORWARD DOLLARS			
(DISCOUNTS IN PCT. P.A.)			
SPOT DOLLARS	ONE-MONTH	THREE-MONTH	
DEC 23	DM 2.6165	-2.1	-2.2
24 - 28	MARKET CLOSED		
29	DM 2.6180	-1.6	-2.2
30	2.6248	-1.8	-2.3
31	2.6253	-1.8	-2.2

4. MONEY MARKET: ON DECEMBER 31 THE CALL MONEY RATE INCREASED TO ABOUT 4 1/2 PERCENT, THE LEVEL OF THE LOMBARD RATE. DURING THE REPORTING WEEK FRANKFURT  
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PAGE 03 BONN 00057 02 OF 02 021805Z

INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

DEC 23	4.5-4.7	4.0-4.3	4.0-4.2
24-28	MARKET CLOSED		
29	4.3-4.6	4.2-4.5	4.1-4.3
30	3.3-3.7	4.2-4.5	4.1-4.3
31	4.5-4.6	4.3-4.5	4.1-4.3

5. FOREIGN DM LOANS: AN INTERNATIONAL BANKING CONSORTIUM (INCLUDING THE SOVIET BANQUE COMMERCIALE POUR L'EUROPE DU NORD) AND THE GOVERNMENT OF NORTH VIETNAM HAVE SIGNED THE CONTRACT FOR A DM 100 MILLION LOAN FOR NORTH VIETNAM. THE CREDIT AMOUNT WAS RAISED FROM THE ORIGINAL ENVISAGED DM 70 MILLION (SEE BONN 19043). THE INTEREST RATE IS REPORTEDLY 1.75 PERCENT ABOVE THE LONDON INTERBANK RATE AND THE MATURITY 5 YEARS. THE REPUBLIC OF IRELAND IS OFFERING A DM 100 MILLION LOAN (COUPON 8 1/4 PERCENT, ISSUE PRICE 98.5 PERCENT, MATURITY 5 YEARS NON-CALLABLE, YIELD TO MATURITY 8.63 PERCENT). THE WESTDEUTSCHE LANDESBANK-GIROZENTRALE IS CURRENTLY PREPARING A DM 50 MILLION LOAN FOR THE JAPANESE HITACHI SHIPBUILDING AND ENGINEERING CO. LTD.  
CASH

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, ECONOMIC REPORTS, ECONOMIC DATA  
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**Copy:** SINGLE  
**Draft Date:** 02 JAN 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Unique ID:** 00  
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**Enclosure:** n/a  
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**TAGS:** EFIN, GE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006